

## Message Text

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PAGE 01 CANBER 05630 01 OF 02 210743Z

11

ACTION EA-09

INFO OCT-01 EUR-12 IO-10 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 FEA-01

/111 W

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R 210703Z AUG 75

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 6430

INFO AMCONSUL BRISBANE

AMEMBASSY LONDON

AMCONSUL MELBOURNE

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL PORT MORESBY

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

CINCPAC

LIMITED OFFICIAL USE SECTION 1 OF 2 CANBERRA 5630

CINCPAC FOR POLAD

SYDNEY ALSO PASS TRADE CENTER

E.O. 11652: N/A

TAGS: EGEN, EFIN, AS

SUBJECT: AUSTRALIAN FY 76 FEDERAL BUDGET

REF: (A) CANBERRA 5505 (NOTAL); (B) CANBERRA 6190 (NOTAL), 9/20/74

(C) CANBERRA 6158 (NOTAL), 9/19/74

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PAGE 02 CANBER 05630 01 OF 02 210743Z

1. SUMMARY. GOD TREASURER PRESENTED FINANCIAL YEAR 1975-76 (FY 76) BUDGET TO PARLIAMENT ON AUGUST 19. HE DESCRIBED KEYNOTE AS "CONSOLIDATION AND RESTRAINT". PROJECTS OVERALL DEFICIT OF \$2.8 BILLION (ALL DOLLAR FIGURES ARE AUSTRALIAN DOLLARS; CURRENT PARITY IS \$A1.00 EQUALS \$US1.28). OUTLAYS TO INCREASE 23 PCT., RECEIPTS 25 PCT. DEFENSE SHARE OF TOTAL TO DECLINE FROM 9 PCT. IN 1975 TO 8 PCT. AIR NAVIGATION CHARGES TO INCREASE, COAL EXPORTS AND CRUDE OIL PRODUCTION TO BE TAXED. PERSONAL INCOME TAX SYSTEM, AS BASICALLY RESTRUCTURED, WILL FREE 500,000 TAXPAYERS FROM TAX ENTIRELY. ON BASIS PRELIMINARY REVIEW, BUDGET AS PROPOSED SEEMS UNLIKELY TO MAKE STRONG POSITIVE CONTRIBUTION EITHER TO IMPORVEMENT OR WORSENING OF CURRENT ECONOMIC MALAISE, BUT IS PROBABLY ABOUT AS GOOD A BUDGET AS WAS POSSIBLE IN CURRENT SITUATION. WE WILL PROVIDE MORE DETAILED COMMENTS AFTER FURTHER STUDY. END SUMMARY.

2. AGGREGATES. OUTLAYS ESTIMATED AT \$21.9 BILLION, A 23 PCT. INCREASE OVER FY 75 ACTUAL EXPENDITURES WHICH THEMSELVES WERE A 46 PCT. RISE ON FY 74. RECEIPTS EXPECTED TO TOTAL \$19.1 BILLION, 25 PCT. UP ON FY 75 WHICH EXCEEDED FY 74 BY 28 PCT. OVERALL DEFICIT \$2.8 BILLION, (\$2.0 BILLION OF WHICH IS DOMESTIC COMPARED \$2.2 BILLION ACTUAL IN FY 75.) ESTIMATED TOTAL OUTLAYS CONSTITUTE 30.5 PCT. OF FORECAST FY 76 GDP, ABOUT SAME AS FY 75, BUT FY 76 PROJECTED DOMESTIC DEFICIT EXPECTED TO BE SLIGHTLY SMALLER PROPORTION OF GDP THAN 3.3 PCT. FINALLY RECORDED IN FY 75. LARGEST EXPENDITURE INCREASE IN HEALTH WITH 116 PCT. RISE, MAINLY ACCOUNTED FOR BY DECISION TO IMPLEMENT NEW MEDIBANK SYSTEM WITHOUT NEW FINANCING. SOCIAL SECURITY AND WELFARE UP 29 PCT., URBAN AND REGIONAL DEVELOPMENT AND THE ENVIRONMENT 18 PCT., WHILE BOTH ECONOMIC SERVICES (INDUSTRY ASSISTANCE, TRANSPORT AND COMMUNICATIONS, ETC.) AND HOUSING DECLINED 10 PCT. DEFENSE EXPENDITURES EXPECTED TO RISE MODERATE 11 PCT. OVER FY 75 ACTUAL, COMPARED TO 23 PCT. INCREASE FY 75 OVER FY 74. THE DISTRIBUTION OF REVENUE BETWEEN DIRECT AND INDIRECT TAXES IN THE NEW BUDGET IS ONLY MARGINALLY CHANGED FROM THE PREVIOUS YEAR. BASIC RESTRUCTURING OF THE PERSONAL INCOME TAX SYSTEM, RAISING LIMITED OFFICIAL USE

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PAGE 03 CANBER 05630 01 OF 02 210743Z

MINIMUM RATES BUT OFFSETTING THIS BY SUBSTITUTING A SYSTEM OF TAX REBATES FOR DEDUCTIONS FROM TAXABLE INCOME, CAUSES A MOJOR SHIFT IN TAX INCIDENCE WITHIN THE UNIVERSE OF INDIVIDUAL TAXPAYERS, LARGELY TO THE DISADVANTAGE OF YOUNG SINGLE INCOME EARNERS AND TWO-INCOME FAMILIES WITH NO DEPENDENTS. THE INCREASE IN CUSTOMS AND EXCISE CHARGES SUCH AS THE NEW DUTIES ON COAL EXPORTS AND EXCISES ON CRUDE OIL, BEVERAGES AND TOBACCO, ROUGHLY MAINTAIN

THE PROPORTION OF INDIRECT TAX REVENUE IN THE TOTAL.

3. OF SPECIAL INTEREST.

A. DEFENSE SHARE. SHARE OF DEFENSE EXPENDITURES IN TOTAL OUTLAYS CONTINUED TO DECLINE TO 8.2 PCT. IN FY 76 FROM 9.1 PCT. IN FY 75 AND 10.8 PCT IN FY 74. ABSOLUTE INCREASE OF 10.6 PCT. IN FY 76 IN FACT IMPLIES REAL DECLINE IN LEVEL OF EXPENDITURES AT CURRENT 17 PCT. RATE OF INFLATION. OF ESTIMATED \$172 MILLION INCREASE, 18.4 PCT. IS FOR MANPOWER, 61.9 PCT. EQUIPMENT AND STORES, 4.1 PCT. FOR FACILITIES, AND 3.0 PCT. FOR SCIENCE AND TECHNOLOGY ESTABLISHMENTS. OUTLAYS FOR DEFENSE COOPERATION AND FOR DEFENSE INDUSTRIAL CAPACITY TO DECLINE.

B. FOREIGN AID. TOTAL AID PAYMENTS ESTIMATED TO INCREASE \$48.6 MILLION OR 14.8 PCT. OVER FY 75. PAYMENTS TO PAPUA NEW GUINEA INCREASE \$39.3 MILLION OR 23 PCT., MULTILATERAL AID \$14.4 MILLION OR 33.6 PCT., WHILE BILATERAL AID DECREASES \$5.1 MILLION OR 4.4 PCT. OF \$210 MILLION FOR PNG, 46 PCT. IS IN FORM OF GENERAL BUDGETARY SUPPORT GRANTS AND 48 PCT. FOR AUSTRALIAN STAFFING ASSISTANCE GROUP. BALANCE IS FOR UPGRADING CERTAIN CIVIL AVIATION FACILITIES AND A SMALL CULTURAL DEVELOPMENT GRANT. MULTILATERAL AID WILL GO THROUGH ADB AND WORLD BANK (54 PCT.), UN (28 PCT.), AND BALANCE FOR "NEW MULTILATERAL AID INITIATIVES". DECLINE IN BILATERAL AID ACCOUNTED FOR BY DECLINE IN WHEAT PRICES (PRESUMABLY AFFECTING FOOD AID TOTALS) AND COMPLETION OF SOME PROGRAMS SUCH AS INDUS BASIN DEVELOPMENT FUND.

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PAGE 01 CANBER 05630 02 OF 02 210802Z

21

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INFO OCT-01 EUR-12 IO-10 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 FEA-01

/111 W

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R 210703Z AUG 75  
FM AMEMBASSY CANBERRA  
TO SECSTATE WASHDC 6431  
INFO AMCONSUL BRISBANE  
AMEMBASSY LONDON  
AMCONSUL MELBOURNE  
USDEL MTN GENEVA  
USMISSION OECD PARIS  
AMCONSUL PERTH  
AMCONSUL PORT MORESBY  
AMCONSUL SYDNEY  
AMEMBASSY TOKYO  
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LIMITED OFFICIAL USE SECTION 2 OF 2 CANBERRA 5630

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C. INDUSTRY ASSISTANCE AND DEVELOPMENT. THIS ITEM TO  
DECLINE \$308.2 MILLION OR 40 PCT. FROM FY 75. BIGGEST  
DECLINES OCCUR IN WOOL MARKETING PRICE SUPPORT (DOWN  
\$185 MILLION), FERTILIZER BOUNTIES (DOWN \$37 MILLION),  
AND EXPORT INCENTIVE GRANTS (DOWN \$59.2 MILLION). IN  
ADDITION NO NEW PROJECTS TO BE APPROVED UNDER REGIONAL  
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PAGE 02 CANBER 05630 02 OF 02 210802Z

EMPLOYMENT DEVELOPMENT SCHEME ALTHOUGH \$135 MILLION  
INCLUDED FOR COMPLETION OF EXISTING COMMITMENTS.

D. AIR NAVIGATION CHARGES. ACTION WILL BE TAKEN TO  
INCREASE RATE OF RECOVERY OF AIRPORT AND AIRWAY FACILITIES  
COSTS TO 70 PCT. IN FY 76, AS OPPOSED TO 55 PCT. RATE  
CURRENT. THIS WILL REQUIRE INCREASES IN AIR NAVIGATION  
CHARGES "SUBSTANTIALLY GREATER" THAN THE 15 PCT. ANNUAL  
INCREASE SPECIFIED IN 1973 AIRLINES AGREEMENT.

E. COAL EXPORT DUTY. DUTIES OF \$6 A METRIC TON ON HIGH  
QUALITY COAL AND \$2 A METRIC TON ON LOWER QUALITY  
EXPECTED TO EARN \$120 MILLION. ALTHOUGH APPLIED TO ALL  
EXPORTERS, IT WILL FALL HEAVILY ON 90 PCT. US-OWNED UTAH  
DEVELOPMENT CO. IN QUEENSLAND WHICH ACCOUNTS FOR ABOUT  
HALF OF AUSTRALIA'S ANNUAL COAL EXPORTS.

4. BUSINESS REACTION. INITIAL REACTION BY BUSINESS

COMMUNITY CAUTIOUS. REDUCTION IN CORPORATE TAX RATE WELCOMED BUT REGARDED AS TOKEN MOVE AND GENERAL VIEW EXPRESSED THAT BUDGET REPRESENTS DISTINCT IMPROVEMENT OVER 1975 APPROACH, BUT IS UNLIKELY TO STIMULATE SIGNIFICANT NEW INVESTMENT. MEANWHILE, BUSINESS CIRCLES CONCERNED OVER NEW COST PRESSURES RESULTING FROM INCREASED GOVERNMENT CHARGES AND EXCISES, AND CONTINUING HIGH INFLATION.

5. COMMENT: GIVEN LIMITS ON REAL OPTIONS, GOA BUDGET REPRESENTS COURAGEOUS EFFORT TO CARRY OUT TREASURER'S OBJECTIVE OF CURBING PUBLIC SECTOR GROWTH, IMPROVING PRIVATE SECTOR CLIMATE AND RETARDING INFLATION. BUT MOMENTUM OF LABOR GOVERNMENT'S SOCIAL PROGRAMS INVOLVES SUCH INTRINSIC STEEP TREND OF SPENDING INCREASES THAT EVEN POLITICALLY COURAGEOUS AND DIFFICULT CUTBACKS IN BUDGET COULD NOT BRING THE OVERALL RATE INCREASE IN PUBLIC EXPENDITURE BELOW 23 PCT. IN TURN, RESULTING REVENUE REQUIREMENTS, BARRING UNACCEPTABLE DEFICIT LEVEL, PRECLUDED SIGNIFICANT CORPORATE TAXES REDUCTIONS, OR THE BADLY-NEEDED MEASURES TO INDEX CORPORATE AND PERSONAL INCOME TAXES. FOR THESE REASONS, WHILE THE BUDGET REPRESENTS A TOUGH-MINDED EFFORT TO GRAPPLE WITH AUSTRALIA'S ECONOMIC PROBLEM, AND QUITE PROBABLY THE LIMITED OFFICIAL USE

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PAGE 03 CANBER 05630 02 OF 02 210802Z

BEST EFFORT POSSIBLE, IT IS NEVERTHELESS UNLIKELY TO PRODUCE DRAMATIC ECONOMIC IMPROVEMENT.

6. IN ADDITION, THERE IS INEVITABLE QUESTION WHETHER PROPOSED BUDGET CAN BE MAINTAINED IN FACE OF ECONOMIC DEVELOPMENTS DURING THE YEAR. ORIGINAL FY 1975 BUDGET WAS RAPIDLY OVERTAKEN BY EVISION, IN FACE OF AGRICULTURAL AND INDUSTRIAL PROBLEMS, WHICH WIDENED DEFICIT AND SIGNIFICANTLY CHANGED ORIGINALLY EXPECTED BUDGET IMPACT. NUMEROUS AUSTRALIAN LABOR CIRCLES, CONCERNCE OVER HAYDEN'S FAILURE TO INDEX PERSONAL INCOME TAXES AND GOA'S STATED INTENT THAT INCREASES IN INDIRECT TAXES BE EXCLUDED FROM QUARTERLY WAGE INDEXATION FORMULA, HAVE AIRED EARLY RESERVATIONS ABOUT NEW BUDGET. ESPECIALLY IN EVENT OF WORSENING UNEMPLOYMENT DURING COMING MONTHS, LABOR PRESSURES FOR ADDITIONAL STIMULATORY EXPENDITURE AND FOR RESUMPTION OF SPECIAL PUBLIC WORKS SCHEMES WILL BECOME VERY STRONG.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET  
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**Copy:** SINGLE  
**Draft Date:** 21 AUG 1975  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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**To:** STATE  
**Type:** TE  
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